Monthly Commentary 4th of April 2023

There was a lot of volatility in the markets in March, as banking crises in both the US and Switzerland threatened financial stability. In the end, markets mostly rallied – especially bond markets that saw yields in government bonds retreat significantly - producing 2-3% gains. Global equities also did well, up more than 2% and were especially strong in the US. Only the UK's FTSE lagged, with a 3% drop. The USD gave back most of its recent gains, with the trade weighted index falling more than 2%. Commodities had mixed outcomes, with Gold (+7.8%) and Silver (+15.2%) being the standouts. Bitcoin also had a strong month, up almost 23%.

Dour forecasts

It seems to us that most articles we have recently read in the financial press are rather pessimistic about the future, arguing that there are too many factors in the global economy that will weigh down on financial assets, especially equities.

Below is a sample of some recent headlines from Bloomberg and some quotes from the articles:

03/04/2023, 11:49 Veteran Money Managers Are Bailing on Stock Market Rally - Bloomberg

Markets

Veteran Money Managers Bail on Stock Rally With Fed Hawks Flying

- Barclays Wealth reverses bullish position on rate skepticism
- L&G sells stocks, buys long-dated bonds to brace for recession

"Prominent money managers have stopped chasing the latest stock rally, reasoning that expectations for easier Federal Reserve monetary policy are overblown with inflation still running hot. Should any rate cuts come, they would be intended to halt an economic downturn that also would bode poorly for equity returns, their thinking goes…

..The full impact of the Fed's aggressive rate increases has yet to be fully absorbed by the American economy, warned John Roe, the head of multi-asset funds at Legal & General. He's both cut his exposure to equities and added recession hedges in the form of long-duration government bonds..."

03/04/2023, 12:16 Morgan Stanley Strategist Says US Tech Stock Rally Is Overdone - Bloomberg

Markets

Morgan Stanley Strategist Says US Tech Stocks' Rally Is Overdone

- Tech will only bottom when the market does, Wilson says
- JPMorgan strategists also say sector to stop outperforming

By Farah Elbahrawy
3 April 2023 at 10:10 EEST

"Morgan Stanley's Michael Wilson — among the most prominent bearish voices on US equities — warns the rally in tech stocks that's exceeded 20% isn't sustainable and that the sector will return to new lows…

…Tech is actually more pro-cyclical and bottoms coincidently with the broader market in bear markets," the strategist — who ranked No. 1 in last year's Institutional Investor survey after he correctly predicted the selloff in stocks — wrote in a note…"

Markets

Citi Joins BofA's Cautious View on European Equity Markets

- Stoxx 600 has little upside, seen ending year at 457: survey
- Strategists wary of volatility and risks to economic growth

By Michael Msika
24 March 2023 at 07:00 EET

"…*That's the case at Citigroup Inc. where Beata Manthey has sharply cut her targets for the Stoxx 600. She expects the benchmark to end the year at 445 points — around its current level — down from a 475-point forecast issued just last month. 'Downside risks to growth and a volatile market environment' are reasons for the cut, Manthey said in a note…"*

All of the above strategists have teams of very highly qualified analysts that are constantly researching and updating their models. So these are generally very smart people. But it does not make their forecasts correct. Just because Michael Wilson was rated the top strategists on Wall Street by the Institutional Investor survey, having correctly predicted the 2022 equity swoon, it does not mean that he will be right again this year. It's just that investors like the comfort of seeking recent winners to guide them.

Do we have an opinion about the future? Certainly, but it really does not matter as there are millions of opinions out there, but only one path that the future will take. No matter how much data one analyzes, and no matter how much confidence they have in that data, the markets always find a way of eventually humbling even the most venerated forecaster.

Rather than try to trade in and out of the markets depending on what our research reveals, we would rather stick to high quality securities, all within the risk tolerance of each of our investors. Then just let the markets do what they need to do.

A seminal study by Barber and Odean, two professors - at the University of California https://faculty.haas.berkeley.edu/odean/papers%20current%20versions/individual_investor_performance_final.pdf revealed that "*investors pay a tremendous performance penalty for active trading*", and they conclude that "*Our central message is that trading is hazardous to your wealth*"

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